

**BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-3-E**

In the Matter of Annual Review of Base)	REBUTTAL TESTIMONY OF BRETT PHIPPS FOR DUKE ENERGY CAROLINAS, LLC
Rates for Fuel Costs for Duke Energy)	
Carolinas, LLC, Increasing Residential and)	
Non-Residential Rates)	
_____)	

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**
2 **POSITION.**

3 A. My name is Brett Phipps. I am Managing Director, Fuel Procurement, for Duke
4 Energy Corporation (“Duke Energy”), and my business address is 526 South Church
5 Street, Charlotte, North Carolina 28202.

6 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN SUPPORT OF**
7 **THE APPLICATION OF DUKE ENERGY CAROLINAS, LLC (“DEC” OR**
8 **THE “COMPANY”) IN THIS DOCKET?**

9 A. Yes, I filed testimony describing the Company’s fossil fuel purchasing practices,
10 providing fossil fuel costs for the review period, and describing changes forthcoming
11 in the billing period.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to opinion testimony and
14 recommendations offered by Gregory Lander on behalf of South Carolina Coastal
15 Conservation League and Southern Alliance for Clean Energy.

16 **Q. WHAT EXPERIENCE DO YOU HAVE WITH DISPATCH OPTIMIZATION**
17 **AS IT RELATES TO FUEL PROCUREMENT DECISIONS?**

18 A. I have been in the energy industry for approximately 27 years. During this time, I
19 have come to understand each component that makes up the total price for fossil fuels
20 that the Company purchases for its diverse generation portfolio. For example, some
21 of these components are commodity prices, transportation price, and reagent
22 price. The Company has a diverse mix of generation that it can use to provide
23 electricity to its customers, such as coal, natural gas, nuclear, oil, hydro, renewables

1 and purchased power. The overall Carolina system is complex and has many
2 variables that change daily and that can impact reliable generation. My experiences
3 as an employee of an electric utility for 20 years has provided an extensive amount of
4 experience with an understanding of these daily variables that impact reliable
5 generation such as power prices, variable O&M impacts, station outages, joint
6 dispatch between DEC and DEP, environmental requirements and generation
7 requirements that the Company uses to optimize its dispatch for the entire Carolina
8 system. It is my experience that when you are optimizing the dispatch of the Carolina
9 system you cannot look at just one component of a complex system when making fuel
10 procurement decisions for providing low cost reliable generation for the customer.

11 **Q. DO YOU BELIEVE THE TESTIMONY OFFERED BY MR. LANDER IS**
12 **RELEVANT TO THIS PROCEEDING?**

13 A. No. The testimony and recommendations offered by Mr. Lander pertaining to the
14 Company's operations and utilization of the Company's natural gas transportation
15 capacity does not accurately describe the operational activities or gas transportation
16 capacity usage activities undertaken by the Company to reliably and economically
17 provide electricity to its customers, and is therefore not relevant to this proceeding.
18 As such, Mr. Lander's recommendation that the Commission should require the
19 Company to (1) begin reporting hourly operational data and (2) track the margins on
20 third-party sales that use capacity unneeded for planned generation so that DEC can
21 then use those margins to set a reserve price on capacity release is not warranted nor
22 relevant to this proceeding.
23

1 Q. WHY DO YOU CONCLUDE THAT MR. LANDER'S TESTIMONY DOES
2 NOT ACCURATELY DESCRIBE THE ACTIVITIES UNDERTAKEN BY
3 THE COMPANY IN PROVIDING ELECTRICITY TO ITS CUSTOMERS?

4 A. First, Mr. Lander's testimony fails to account for the fact that the Company is the asset
5 manager under an approved Affiliate Asset Management Agreement ("AMA") and
6 Delivered Supply Agreement between DEC and Duke Energy Progress, LLC
7 ("DEP"). Under this agreement, DEC is the asset manager for all gas supply and
8 capacity for both DEC and DEP. Having an AMA provides efficiency and flexibility
9 in the management of the gas assets and resources for the benefit of customers. This
10 means that DEC is responsible for ensuring that the needed gas supply and
11 transportation capacity is not only available for its own power generation needs, but
12 also for DEP's power generation needs. It is possible that Mr. Lander is only looking
13 at DEC forecasted usage over the billing period and making a simplified comparison
14 to the firm interstate capacity information, and has assumed that DEC is positioned to
15 have excess transportation capacity to release back to the market on an on-going basis.
16 This, however, is not the case. As an illustration, looking at the Company's actual
17 2018 gas usage, the Company needs all of its natural gas capacity. In 2018, DEC and
18 DEP had a minimum daily natural gas usage of approximately 520,000 MMBtu and
19 an average daily usage of approximately 951,000 MMBtu/day. In addition, DEC and
20 DEP combined had peak summer day and winter day usage of approximately
21 1,472,000 MMBtu/day and 1,487,000 MMBtu/day, respectively. However, the
22 available firm capacity from Transco is only 435,000 MMBtu per day.

1 In addition to overall gas usage by the Company's generation facilities, having
2 firm transportation, and daily and intraday flexibility is needed to manage deviations
3 for variables including but limited to load, unit performance, and managing the risk
4 of penalties associated with Operational Flow Orders ("OFOs") on Transco which
5 have continued to increase in recent years. For example, in 2018, there were 88 OFOs,
6 and in 2019 there have already been 108 OFOs. Ensuring that the Company's
7 generating plants have sufficient gas supply and firm transportation service is critical
8 to ensuring reliable and cost effective electricity service.

9 Second, Mr. Lander may be incorrectly assuming that the Company's
10 transportation redelivery agreements with the Local Distribution Company's
11 ("LDCs") to generation specific plants are somehow available for capacity release
12 transactions. These redelivery agreements on the applicable LDCs are plant-specific
13 and are in place for needed reliable redelivery service of natural gas supply from
14 upstream interstate supply sources to the applicable generation facilities when the
15 facilities are needed to meet system needs. These LDC agreements are considered
16 intrastate agreements and there is no associated capacity release market as suggested
17 by Mr. Lander. Even if it was assumed there was such a market, there is no value to
18 other customers as the agreements only provide for redelivery service to the applicable
19 company's natural gas generation facilities under each agreement.

20 **Q. WHAT IS YOUR PERSPECTIVE ON THE ACTIVITIES UNDERTAKEN BY**
21 **THE COMPANY IN PROVIDING ELECTRICITY TO ITS CUSTOMERS?**

22 **A.** From a fuel and transportation perspective, the Company's purpose is to ensure a
23 reliable, flexible and competitive fuel contract portfolio that meets the needs of the

1 dynamic generation fleet. System optimization of generator dispatch occurs each day
2 and depends upon least-cost production which includes fuel cost, plant availability,
3 transmission constraints, as well as other considerations. To ensure the Company
4 procures a reliable and competitive cost fuel supply and commits and dispatches
5 generation units in an economic and reliable manner, the Company has in place
6 experienced personnel, processes, applications and systems to monitor the operations
7 of each generation facility, hourly gas usage and forecast, natural gas and power
8 markets, and pipeline operations on a 24/7 basis. This allows the Company to track,
9 monitor and manage the Carolinas gas burns to ensure it can meet daily generation
10 requirements with adequate gas supply and transportation, by managing pipeline
11 operational constraints such as pipeline OFOs, and deviations in burns due that can
12 occur due to generation performance, load changes, as well as optimizing economic
13 power purchases and sales.

14 Mr. Lander's testimony is only concerned with the very limited view of natural
15 gas capacity for resale which as explained above, the Company needs its existing firm
16 transportation capacity on a daily basis and is not in a position to resell its capacity. If
17 it were to resell its capacity, the Company would be a position of needing capacity,
18 and be exposed to market risk, and greater costs and reliability risk with no benefit.
19 Instead, the Company's primary focus is to ensure that it reliably and economically
20 provides service to its customers.

21 **Q. DO YOU BELIEVE THE COMPANY SHOULD BE REQUIRED TO**
22 **REPORT ALL GAS CONSUMPTION AT ALL GENERATION UNITS ON**
23 **AN HOURLY BASIS AS RECOMMENDED BY MR. LANDER?**

1 A. No. First, the discovery request Mr. Lander refers to requested “the Company’s MW
2 production and fuel use by hour by day for each of the Company’s generating facilities
3 capable of using gas” Although the Company uses plant fuel consumption data
4 for operational purposes, consistent with the Company’s response to the discovery
5 request, this raw data has not been assembled for purposes of reporting or post hoc
6 review and is therefore not in a readily producible format. Aggregating and providing
7 hourly gas consumption data would be extremely burdensome without providing any
8 added value to the Commission or interested stakeholders. As described earlier, the
9 Company’s planning and dispatch decisions are dependent upon reliability and
10 economics, not upon whether gas capacity can be remarketed. Given the extreme
11 burden of recording and reporting this operational data, and the lack of value of the
12 data in evaluating the Company’s planning and dispatch decisions, the Company
13 should not be required to report it.

14 **Q. COULD RESELLING NATURAL GAS ON THE SECONDARY MARKET**
15 **PRESENT RELIABILITY CONCERNS?**

16 A. Yes. As noted above, the Company utilizes all of its existing capacity as well as
17 various supply agreements to meet its gas demand needs. Releasing capacity would
18 only increase the Company’s market price risk and cost and reliability risk. The
19 Company would simply be required to go back into the market to buy additional gas
20 supply or simply recall the same capacity it previously released. The decision whether
21 or not to resell capacity must be based on the utility’s needs and operational realities
22 to ensure the Company cost effectively and reliably serves its customers.
23

1 **Q. DO YOU AGREE WITH MR. LANDER’S RECOMMENDATION THAT**
2 **THE COMPANY SHOULD ESTABLISH A RESERVE PRICE FOR**
3 **CAPACITY RELEASES?**

4 A. No. Mr. Lander’s recommendation that the Company establish a reserve price for
5 natural gas capacity releases is based on an incomplete view of the value of pipeline
6 capacity coupled with a lack of understanding of the Company’s needs and obligations
7 to provide reliable and economical power generation in a prudent manner for its
8 customers. Apart from the market price, pipeline capacity value and needs must also
9 take into consideration factors that include, but are not limited to: access to
10 competitively priced supply, overall capacity needs, requirements for flexibility given
11 power generation and load changes, as well as the flexibility to managing daily
12 pipeline restrictions and OFOs that expose the Company to penalties.

13 **Q. DO YOU BELIEVE, CONSISTENT WITH S.C. CODE ANN. § 58-27-865(F),**
14 **THAT THE COMPANY HAS MADE EVERY REASONABLE EFFORT TO**
15 **MINIMIZE FUEL COSTS, GIVING DUE REGARD TO RELIABILITY OF**
16 **SERVICE, ECONOMICAL GENERATION MIX, GENERATING**
17 **EXPERIENCE OF COMPARABLE FACILITIES, AND MINIMIZATION OF**
18 **THE TOTAL COST OF PROVIDING SERVICE?**

19 A. Yes, the Company has made and continues to make every effort to minimize fuel costs
20 to customers while providing reliable and cost-effective service to its customers.

21 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?**

22 A. Yes, it does.